



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
KENTON COUNTY  
SHERIFF'S SETTLEMENT - 2000 TAXES**

**April 3, 2001**

**EDWARD B. HATCHETT, JR.  
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**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE**  
**SHERIFF'S SETTLEMENT - 2000 TAXES**

**April 3, 2001**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2000 Taxes for Kenton County Sheriff as of April 3, 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected net taxes of \$64,560,121 for the districts for 2000 taxes. The Sheriff distributed taxes of \$64,260,186 to the districts for 2000 Taxes. Taxes of \$654 are due to the districts from the Sheriff and refunds of \$13,055 are due to the Sheriff from the taxing districts.

**Report Comments:**

- Tax Distribution Payments Should Be Documented By Monthly Reports And Payments To The Districts Should Be Made On A Timely Basis.
- Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Richard L. Murgatroyd, Kenton County Judge/Executive

Honorable Charles L. Korzenborn, Kenton County Sheriff

Members of the Kenton County Fiscal Court

Independent Auditor's Report

We have audited the Kenton County Sheriff's Settlement - 2000 Taxes as of April 3, 2001. This tax settlement is the responsibility of the Kenton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in Note 1, the Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Kenton County Sheriff's taxes charged, credited, and paid as of April 3, 2001, in conformity with the modified basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2002, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Richard L. Murgatroyd, Kenton County Judge/Executive  
Honorable Charles L. Korzenborn, Kenton County Sheriff  
Members of the Kenton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Tax Distribution Payments Should Be Documented By Monthly Reports And Payments To The Districts Should Be Made On A Timely Basis
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 26, 2002

KENTON COUNTY  
CHARLES L. KORZENBORN, SHERIFF  
SHERIFF'S SETTLEMENT - 2000 TAXES

April 3, 2001

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 7,902,209	\$ 7,642,939	\$ 33,544,360	\$ 8,505,431
Tangible Personal Property	971,376	1,006,926	3,445,454	1,881,083
Intangible Personal Property				919,088
Increased Through Erroneous				
Assessments	10,680	13,248	36,726	24,791
Franchise Corporation	494,432	474,556	1,826,304	
Supplemental Bill	21,555	17,800	79,257	23,960
Penalties	26,711	26,717	115,571	31,865
Adjusted to Sheriff's Receipt	72	30	172	55
 Gross Chargeable to Sheriff	 \$ 9,427,035	 \$ 9,182,216	 \$ 39,047,844	 \$ 11,386,273
 <u>Credits</u>				
Exonerations	\$ 41,272	\$ 49,296	\$ 153,272	\$ 37,940
Discounts	145,338	141,430	602,966	185,945
Delinquents:				
Real Estate	96,918	96,989	472,369	104,316
Tangible Personal Property	54,610	47,700	207,497	128,127
Intangible Personal Property				23,197
Uncollected Franchise	22,116	27,699	94,034	
 Total Credits	 \$ 360,254	 \$ 363,114	 \$ 1,530,138	 \$ 479,525
 Net Tax Yield	 \$ 9,066,781	 \$ 8,819,102	 \$ 37,517,706	 \$ 10,906,748
Less: Commissions (a)	385,626	330,412	750,354	463,824
 Net Taxes Due	 \$ 8,681,155	 \$ 8,488,690	 \$ 36,767,352	 \$ 10,442,924
Taxes Paid	8,664,772	8,478,435	36,702,481	10,414,498
Refunds (Current and Prior Year)	17,440	14,426	72,698	27,772
 Due Districts or (Refunds Due Sheriff)		(b)	(c)	
as of Completion of Fieldwork	\$ (1,057)	\$ (4,171)	\$ (7,827)	\$ 654

(a), (b), and (c) See Page 4

KENTON COUNTY  
 CHARLES L. KORZENBORN, SHERIFF  
 SHERIFF'S SETTLEMENT - 2000 TAXES  
 April 3, 2001  
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	27,416,474
2% on	\$	37,517,706
1% on	\$	1,366,157

(b) Special Taxing Districts:

Library District	\$	(1,532)
Health District		(116)
Extension District		(73)
Northern Kentucky Area Planning District		(2,644)
Independence Fire District		16
Piner-Fiskburg Fire District		(24)
Kenton Fire		20
Elsemere Fire District		182

Refund Due Sheriff	\$	<u>(4,171)</u>
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(c) School Districts

Common School District	\$	(2,235)
Covington School District		(5,650)
Ludlow School District		48
Erlanger School District		252
Beechwood School District		<u>(242)</u>

Refund Due Sheriff	\$	<u>(7,827)</u>
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The accompanying notes are an integral part of the financial statement.

KENTON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 3, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of April 3, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

KENTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 3, 2001  
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2000. Property taxes were billed to finance governmental services for the year ended June 30, 2001. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 25, 2000 through April 3, 2001

Note 4. Interest Income

The Kenton County Sheriff earned \$52,349 as interest income on 2000 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Kenton County Sheriff collected \$121,609 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Kenton County Sheriff collected \$7,085 of advertising costs and \$5,067 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2000 taxes, the Sheriff had \$ 3,157 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

Note 8. Bond Coverage

KRS 134.320 and KRS 134.250 give the Fiscal Court the authority to require the Sheriff to have a county revenue bond. The county revenue bond is supposed to cover all tax monies in the Sheriff's possession. During 2000 tax year, the highest amount of tax collections on hand for the tax account was \$ 2,247,474. The Sheriff's county revenue bond was \$15,000,000, which appears to be adequate to protect the county from potential loss.

## COMMENTS AND RECOMMENDATIONS



KENTON COUNTY  
CHARLES L. KORZENBORN, SHERIFF  
COMMENTS AND RECOMMENDATIONS

April 3, 2001

STATE LAWS AND REGULATIONS:

Tax Distribution Payments Should Be Documented By Monthly Reports And Payments To The Districts Should Be Made On A Timely Basis

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During July 2001, the Kenton County Sheriff's Office made a supplemental payment of \$129,394 to various districts for 2000 taxes with no correlating monthly report. KRS 134.300 and KRS 134.320 states that the Sheriff shall, by the tenth day of the each month, or more often as may be required, report the amount of all taxes collected during the preceding month. As there were no more 2000 tax collections after April 2001, the Sheriff was in noncompliance with these statutes. We recommend that the Sheriff comply with these statutes in the future by reporting taxes and paying taxes on a timely basis.

*Sheriff's Response:*

*So noted.*

INTERNAL CONTROL - MATERIAL WEAKNESSES:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition and a material weakness under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations and budget restrictions, the official has limited options for establishing an adequate segregation of duties. During the audit, it was noted that the two tax bookkeepers take tax payments, record cash receipts, and prepare deposits. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the risk for a lack of an adequate segregation of duties. We recommend that the Sheriff separate collection of receipts and recording of receipts in the future.

*Sheriff's Response:*

*So noted.*

KENTON COUNTY  
CHARLES L. KORZENBORN, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
April 3, 2001  
(Continued)

PRIOR YEAR

Fidelity Bonds Should Adequately Protect County From Potential Loss

*This comment has been corrected in the current year.*

Sheriff Should Prepare Monthly Bank Reconciliations

*This comment has been corrected in the current year.*

Sheriff Should Deposit Receipts Daily

*This comment has been corrected in the current year.*

The Sheriff's Office Has A Lack Of Adequate Segregation Of Duties

*This comment has not been corrected and is repeated in the current year.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

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Members of the Kenton County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Kenton County Sheriff's Settlement - 2000 Taxes as of April 3, 2001, and have issued our report thereon dated July 26, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Sheriff's Settlement - 2000 Taxes as of April 3, 2001 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- Tax Distribution Payments Should Be Documented By Monthly Reports And Payments To The Districts Should Be Made On A Timely Basis.

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

In planning and performing our audit, we considered the Kenton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition referred to above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
July 26, 2002

